

Testimony Regarding
A more progressive state income tax
Testimony of Ady Barkan¹
To the Finance, Revenue and Bonding Committee
February 23, 2009

Senator Daily, Representative Staples, and distinguished members of the Finance Committee:

I recognize your predicament. The financial meltdown on Wall Street has morphed into the biggest recession of our lifetimes. Hundreds of thousands of Americans are being laid off every week; Connecticut's unemployment rate is at 7 percent and rising.

On the fiscal front, the recession has meant a collapse in government revenues. Connecticut's budget deficit has exploded – \$4 billion next year, \$4.7 billion the year after that.

And you have been asked to clean up this mess. Rather than fulfill her constitutional duty and propose a balanced budget, Governor Rell has delivered to you a tragicomedy better suited for the theater than the statehouse: her so-called "proposal" raises new revenue through regressive hikes in the price of licenses, permits, and fees; it provides insufficient funding to early childhood care and education, to job training, and to energy assistance; it cuts support for HUSKY medical insurance; and it does all that without coming close to balancing our state's budget.

Instead of being honest with the people of Connecticut and their representatives, the governor has abrogated her responsibilities and left the hard work up to you.

I recognize, too, why you might shy away from raising taxes. For twenty-eight years, since President Reagan swept into office, the tax cut has been our political hegemon: In good times, a tax cut was the deserved reward for a hard-working public; in bad times, that same tax cut was the panacea for all our economic ailments. For most of your political lives, our discourse has been dominated by the mythology of Contracts with America and Pledges of No New Taxes.

Under the leadership of Jodi Rell, Connecticut's government has remained shackled by that ideology. Our state taxes are painfully regressive: The poorer you are, the higher a share of your income you pay in taxes. In Connecticut, our income tax rate is entirely flat – if your constituents struggle to raise their families on \$25,000 a year, they pay the same 5% as the CEOs making \$2.5 million. The Governor's increases in fees and licenses and permit costs would only exacerbate this cruel and unfair approach to governance.

And although the world is changing around her, our governor offers you more of this toxic potion. She tells you that in this moment of crisis, our budget should be balanced on the backs of poor children who can't afford health insurance; on the backs of teachers who can't supply their classrooms; on the backs of small business owners, whose health care costs and fees continue to rise; on the backs of municipalities, who despite her promises, will have to raise property taxes once again.

¹ This testimony was prepared through the Yale Law School Landlord Tenant Advocacy Clinic under the supervision of J.L. Pottenger, Jr.

The economists tell us that this is the worst way to get out of a recession: they know that it times like this, we need to put money in the hands of people who will use it quickly; they know that raising taxes on rich people is the best way to balance a budget in the recession. But our governor knows better; her ideology of tax cuts pays no heed to 80 years of evidence.

In the face of this crisis, the governor would sacrifice our State's well being because her true allegiance is to the cult of no new taxes. In the name of that cult, she would perpetuate our state's rising inequality; she would condemn our cities to continued poverty; she would continue to ignore the embarrassing reality that Connecticut schools have the largest poor-non-poor achievement gap in the country.

Our governor says that now is no time for shared sacrifice. Her ideology says that the wealthy bankers and real estate speculators who brought us into this crisis have no obligation to help get us out. Her ideology teaches us that those lucky families who are weathering the storm – who, because of hard work and luck, are still doing very well for themselves – need not contribute more to the common good. Her ideology says that might means right; that government must protect the wealthy; that although working families must shoulder higher unemployment and lower wages, the richest families must be left alone to enjoy their mansions and their luxury automobiles and their 7-figure paychecks; in the face of our collective crisis, our governor tells us, these masters of the universe must not be asked to do anything differently.

But this year is not 1980, or even 1994. Change has come to America. The Age of Reagan has yielded to the Age of Obama, and in this new world the promise of shared prosperity has trumped the promise of an unbridled, unregulated, and soulless market.

I suggest to you that the blind ideology of Newt Gingrich, George W. Bush, and Jodi Rell has little place in the America of 2009.

The American people have rejected the No Tax Gods, and instead have delivered a president who proudly reminds us that “we cannot have a thriving Wall Street while Main Street suffers. In this country, we rise or fall as one nation; as one people.”

The American people have elected an overwhelmingly Democratic Congress and given it a mandate to invest in our schools and our transit and our energy infrastructure, so that our children's world will be more equal and more prosperous and more clean than our parents' world. Last week, in California, the Republican governor put his constituents' interest above his party's ideology, and closed a \$41 billion deficit.

And the good people of Connecticut have sent Democrats into this legislature – with veto-proof majorities – so that you too can help rebuild this state: so that you too can value health care over 50-foot yachts; so that you too can value good jobs over private jets; so that you too can value small classes over enormous McMansions.

Your constituents are ready for change. In order to protect our vital services and programs, your constituents are more than willing to pay their fair share. They are willing to pay a higher fee to register their cars; they are willing to pay an extra dollar for a bottle of scotch; and they are even willing to pay an extra cent on every dollar of purchases. But in exchange, they ask only that you share the

responsibility broadly; that your most wealthy constituents make a sacrifice as well.

There are five meaningful steps you can take to raise the revenue our state needs. First, I urge you to enact a truly progressive income tax system: one that creates 5 new brackets, at \$150,000, \$250,000, \$500,000, \$1 million, and \$3 million, income above which would be taxed at 6, 7, 9, 11, and 13 percent. That kind of progressivity would create no real new burdens: families bringing home \$3 million can afford to pay an extra \$330,000 in taxes.

Second, Connecticut should reform the corporate business tax by instituting mandatory reporting and re-introducing S-Corporations. Third, we should increase the sales tax by 1 percent, and couple it with a State Earned Income Tax Credit that would offset its regressivity. The sales tax should also be broadened to include a wide array of services.

Fourth, Connecticut should cap the entertainment industry tax credits and eliminate their transferability. And, finally, we should increase alcohol and cigarette excise taxes – for the health of our budget and our communities.

These solutions are not esoteric, or radical, or even novel. They are simple tools of good governance. If you seize the opportunity that this crisis has presented, you can implement reforms that will put Connecticut's budget on stable ground for decades. Implement a truly progressive income tax, and our children's children will learn about the wisdom and the foresight that you showed this year.

Connecticut is yearning for your leadership. We are yearning for you to stand up and say that the governor's voodoo is poisonous for our economy, for our families, and for our state. This budget will never be balanced without new revenue, and we will never get new revenue unless you are willing to fight for it.

We live in a new world. Yesterday's ideologies must yield. This is your moment and Connecticut is waiting for you to lead.

